HEALTHCO HEALTHCARE AND WELLNESS REIT (HCW)

Waiting to stick the landing

ANALYST
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AUTHORISATION
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RECOMMENDATION (unchanged)

BUY

*See key risks on Page 4.

PRICE

A$0.70

TARGET (12 MONTHS)

A$0.95 (prev. A$1.00)

Expected return	
Capital growth	**35.7%**
Dividend yield	**0.0%**
Total expected return	**35.7%**

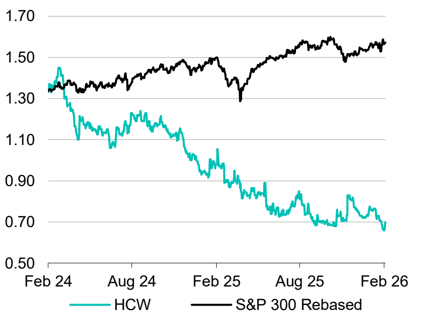
Sector
Health Care REITs

Capital structure & trading data	
Enterprise value	**$692m**
Market cap	**$385m**
Issued capital	**550m**
Free float	**77%**
Avg. daily val. (52wk)	**$1.7m**
12 month price range	**A$0.65-1.07**

Price performance

	(1m)	(3m)	(12m)
Price (A$)	0.76	0.72	1.06
Absolute (%)	-7.9	-2.8	-33.6
Rel market (%)	-8.2	-6.4	-38.7

Share price (A$/sh) vs. XKO



Source: IRESS

1H26 result – receiver driven

HCW announced its 1H26 result with FFO / share of 2.2c above BPe (+3%), but below Visible Alpha consensus (-13%). No FY26 guidance remains given ongoing Healthscope ("HSO") receiver-led process, but it is expected that "HCW and UHF will recommence distributions once the HSO situation has been resolved". Key takeouts included:

(1) **HSO situation; incremental alternate arrangement detail** – All 11 HSO hospitals continue to operate as normal, with 100% of all rent due having been paid, and state-by-state executable lease agreements with alternate operators remains in place as per prior. Incrementally though, HCW now expects upon new leases being struck the terms would include face rents to remain unchanged and incentives would indicatively result in a 10-15% near-term reduction to asset values.

(2) **c.$155m cash & undrawn debt position post disposals** – 6 primary medical assets were sold during the half (all settled) for c.$77m total at 6.25% in-place yield (BPe) which while marginally dilutive to earnings and NTA ($81m book val), provide HCW with a stronger cash position to fund potential lease arrangement outcomes with gearing of 28.5% below 30-40% target range.

(3) **Timing the key question** – The HSO receiver-led process remains the key determinant in potential pathways head, particularly in regards to UHF equity investment and HCW distribution's recommencing (BPe 1QFY27).

Earnings changes

We decrease our FY26-28 FFO / share estimates by -19% to +1% to reflect: **(1)** asset disposals during 1H26; **(2)** impact of half year actuals; and **(3)** more conservative stance on recommencement of UHF distribution (now end 1Q27 vs. end FY26 prior).

Investment thesis: Buy

No change to our Buy rating. HCW trades at a material -50% discount to NTA which is the widest in our sector coverage, notwithstanding +26bp cap rate expansion at the result (c.+40bps for HSO-tenant assets) and additional detail on potential asset devaluations which implies a higher valuation than the current share price implied.

Earnings estimates

Year ending 30 June	**2025**	**2026e**	**2027e**	**2028e**
Total Revenue (A$m)	60.4	59.8	57.8	60.4
EBITDA (A$m)	58.8	43.2	54.7	63.0
Funds From Operations (A$m)	36.5	22.9	34.6	41.2
FFO (diluted) (A¢ps)	6.6	4.2	6.3	7.5
AFFO (A¢ps)	6.1	3.7	5.6	6.8
FFO growth (%)	(19.4%)	(37.2%)	51.1%	19.0%
P/E (x)	10.6	16.8	11.1	9.4
Price/CF (x)	21.2	16.1	11.5	9.6
EV/EBITDA (x)	11.8	16.0	12.7	11.0
Dividend (¢ps)	4.2	-	6.3	7.5
Yield (%)	6.0%	-	9.0%	10.7%
Franking (%)	-	-	-	-

Source: Bell Potter Securities estimates

1H26 Result Summary

The 1H26 result vs BPe and consensus is summarised below:

Figure 1: 1H26 result summary

		1H25A	FY25A	1H26 Actual	1H26 BPe	1H26 Consensus	1H26 vs BPe	1H26 vs Cons	1H26 vs pcp	FY26 BPe	FY26 Cons
Property FFO & Co-Investment Income	$m	39.4	68.0	26.8	26.8	29.1	0.0%	-8.0%	-32.0%	52.9	59.1
Non-Property Expenses	$m	-4.7	-9.2	-4.1	-4.1	-4.1	0.0%	-0.8%	-12.8%	-8.7	-8.0
Group EBIT	$m	**34.7**	**58.8**	**22.7**	**22.7**	**24.9**	**0.0%**	**-8.9%**	**-34.6%**	**44.2**	**50.9**
Net Interest Expense	$m	-11.2	-22.3	-10.4	-10.4	-11.2	0.0%	-7.1%	-7.1%	-19.7	-21.9
Tax Expense	$m	0.0	0.0	0.0	0.0	0.0				0.0	0.0
Funds From Operations	$m	**23.5**	**36.5**	**12.3**	**12.3**	**13.9**	**0.0%**	**-11.4%**	**-47.7%**	**24.5**	**29.3**
WANOS	#	559.3	554.8	550.2	550.2	550.2	0.0%	0.0%	-1.6%	550.2	550.2
FFO / share	¢ / share	**4.2**	**6.6**	**2.2**	**2.2**	**2.5**	**-1.6%**	**-12.8%**	**-47.6%**	**4.5**	**5.3**
DPS	¢ / share	**4.2**	**4.2**	**0.0**	**0.0**	**0.8**		**-100.0%**	**-100.0%**	**0.0**	**1.9**

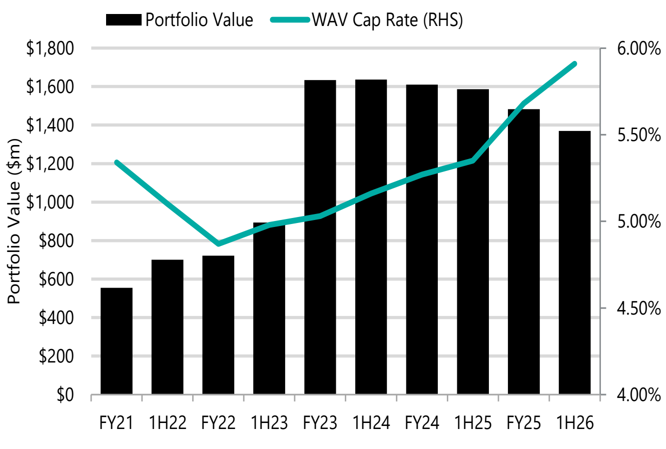
Source: Company data; Visible Alpha consensus; Bell Potter Securities estimates

Figure 2: Key balance sheet and property metrics

		FY24	FY25	1H26	FY26e
Cap Rate	%	5.27%	5.68%	5.91%	6.01%
Occupancy	%	99.0%	99.0%	99.0%	99.0%
Balance Sheet Gearing	%	32.5%	31.1%	28.5%	28.2%
ICR	x	2.4x	2.3x	2.0x	1.9x
WAV Cost of Debt	%	5.5%	5.6%	5.6%	5.6%
NTA / share	$ / share	$1.64	$1.44	$1.39	$1.38

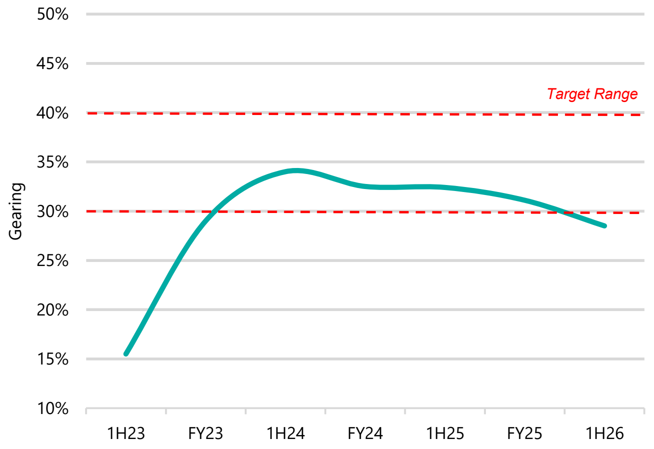
Source: Company data; Bell Potter Securities estimates

Figure 3: Portfolio value vs. WAV cap rate



Source: Company data

Figure 4: Balance sheet gearing historic trend



Source: Company data

Earnings and Valuation Changes

Declines to FFO / share estimates

We reduce our FY26-FY28 EPS estimates by -19% to +1% to reflect: (1) asset disposals during 1H26; (2) impact of half year actuals; (3) more conservative stance on recommencement of UHF distribution (now end 1Q27 vs. end FY26 prior).

Our target price decreases accounting for these earnings changes, and roll forward of our valuations (we assume +20bp cap rate expansion in our NAV). Our target price is based on 50 / 50 blend of our SOTP and DCF valuations.

Figure 5: HCW earnings and valuation changes

	FFO (A$m)			FFO / share (A¢)			DPS (A¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
FY26E	22.7	**22.9**	1.2%	4.1¢	**4.2¢**	1.2%	0.0¢	**0.0¢**	0.0%
FY27E	42.5	**34.6**	-18.5%	7.7¢	**6.3¢**	-18.5%	7.3¢	**6.3¢**	-13.1%
FY28E	45.5	**41.2**	-9.5%	8.3¢	**7.5¢**	-9.5%	8.0¢	**7.5¢**	-6.3%

		Old	New	% Chg
SOTP	*$ / share*	$1.01	**$0.97**	-3.9%
DCF	*$ / share*	$0.95	**$0.89**	-7.0%
Target Price	*$ / share*	$1.00	**$0.95**	-5.0%

Source: Bell Potter Securities estimates

Healthco Healthcare and Wellness REIT (HCW)

BUSINESS OVERVIEW

HealthCo Healthcare and Wellness REIT (HCW) is an externally-managed REIT under parent HMC Capital (HMC), which manages c.$1.4bn of healthcare assets.

It is Australia’s largest diversified healthcare REIT. Portfolio includes investment in hospitals, aged care, childcare, government, life sciences, and primary care & wellness property assets. The tenant base includes a combination of large-scale operators including Healthscope and Acurio, as well as the Australian Government which is the third biggest tenant by gross income.

VALUATION METHOD

Our valuation of HCW is based on 50% SOTP / 50% DCF methodologies. We apply this approach consistently across our real estate coverage universe.

RISKS

Risks to an investment in HCW include but are not limited to:

Asset values: HCW’s portfolio cap rate has experienced less expansion than other peers REITs in the market which have seen significant expansion. We expect to see some further cap rate expansion and asset devaluation ahead, even accounting for some factored into HSO tenancies to date.

Private Health Insurers / Government funding reliance: Sector heavily government subsidised and reliant on PHI revenue indexation. Discussions are ongoing, however, we believe a mutually beneficial outcome for all stakeholders is possible.

Rent adjustment to HSO owned assets: Potential for rent reset given HSO receiver-led administration situation, and need for ongoing operator profitability.

RECOMMENDATION (unchanged)
Buy

PRICE
A$0.70

TARGET (12 MONTHS)
A$0.95 (prev. A$1.00)

Table 1: Financial summary

Price	**A$ / sh**	**0.70**
Target price	**A$ / sh**	**0.95**

Bell Potter Securities
Andy MacFarlane (amacfarlane@bellpotter.com.au; +61477557756)

Profit & Loss						
Year End 30 Jun	**Unit**	**2024**	**2025**	**2026e**	**2027e**	**2028e**
Revenue	**A$m**	**72.0**	**60.4**	**59.8**	**57.8**	**60.4**
Growth %	*%*	*51%*	*-16%*	*-1%*	*-3%*	*5%*
Other Income	A$m	1.3	0.0	0.0	0.0	0.0
Operating Expenses	**A$m**	**-19.9**	**-19.8**	**-17.1**	**-17.6**	**-18.0**
Management EBITDA	A$m	14.5	10.0	0.0	14.5	20.6
Group EBITDA	**A$m**	**68.6**	**58.8**	**43.2**	**54.7**	**63.0**
Depreciation & Amortisation	A$m	0.0	0.0	0.0	0.0	0.0
EBIT	**A$m**	**68.6**	**58.8**	**43.2**	**54.7**	**63.0**
Net Interest Expense	A$m	-23.3	-22.3	-20.3	-20.1	-21.8
Profit Before Tax	**A$m**	**45.3**	**36.5**	**22.9**	**34.6**	**41.2**
Tax Expense	A$m	0.0	0.0	0.0	0.0	0.0
Funds From Operations	**A$m**	**45.3**	**36.5**	**22.9**	**34.6**	**41.2**
Growth %	*%*	*78%*	*-19%*	*-37%*	*51%*	*19%*
FFO / share	**Ac/sh**	**8.0**	**6.6**	**4.2**	**6.3**	**7.5**
Growth %	*%*	*16%*	*-18%*	*-37%*	*51%*	*19%*
AFFO / share	**Ac/sh**	**7.5**	**6.1**	**3.7**	**5.6**	**6.8**
Growth %	*%*	*2%*	*-19%*	*-39%*	*50%*	*21%*
DPS	**Ac/sh**	**8.0**	**4.2**	**0.0**	**6.3**	**7.5**
Growth %	*%*	*5%*	*-48%*	*-100%*	*#DIV/0!*	*19%*

Cash Flow						
Year End 30 Jun		**2024**	**2025**	**2026e**	**2027e**	**2028e**
NOI	A$m	34.0	40.7	40.7	54.7	63.0
Interest Received / (Paid)	A$m	-27.6	-22.4	-16.8	-21.2	-22.9
Other - Incl. Tax	A$m	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**A$m**	**6.4**	**18.3**	**23.9**	**33.5**	**40.0**
Investing Cash Flow	**A$m**	**41.5**	**83.9**	**73.6**	**-26.9**	**-31.9**
Financing Cash Flow	**A$m**	**-35.6**	**-81.6**	**-73.7**	**18.2**	**-14.7**
Net Change in Cash	A$m	12.3	20.6	23.8	24.8	-6.6
Cash at Beginning of Period	A$m	7.6	19.9	40.5	64.3	89.1
Cash at End of Period	**A$m**	**19.9**	**40.5**	**64.3**	**89.1**	**82.5**
Dividends Paid	A$m	-45.1	-34.6	0.0	-8.7	-46.6
Change in Debt	A$m	17.8	-34.7	-73.6	26.9	31.9

Balance Sheet						
Year End 30 Jun		**2024**	**2025**	**2026e**	**2027e**	**2028e**
Cash and Cash Equivalents	A$m	19.9	40.5	64.3	89.1	82.5
Other Current Assets	A$m	32.8	3.5	2.9	3.5	3.7
Investment Property	A$m	1,004.0	889.2	797.6	824.5	856.4
Equity Accounted Investments	A$m	379.5	339.6	324.1	324.1	324.1
Intangibles	A$m	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	A$m	5.2	0.0	0.3	0.3	0.3
Total assets	**A$m**	**1,441.4**	**1,272.8**	**1,189.1**	**1,241.5**	**1,267.0**
Payables	A$m	29.2	14.6	19.1	27.6	29.9
Provisions	**A$m**	**11.2**	**0.0**	**0.0**	**0.0**	**0.0**
Interest Bearing Liabilities	A$m	478.0	445.2	371.6	398.5	430.4
Other Liabilities	**A$m**	**3.1**	**18.5**	**17.4**	**17.4**	**17.4**
Total Liabilities	A$m	521.5	478.3	408.0	443.4	477.7
Total Shareholders' Equity	**A$m**	**919.9**	**794.5**	**781.1**	**798.1**	**789.3**

Key Metrics						
Year End 30 Jun		**2024**	**2025**	**2026e**	**2027e**	**2028e**
Healthcare FFO Growth (%)	%	55.8%	-10.1%	-11.2%	-5.5%	4.9%
WAV Cap Rate (%)	%	5.3%	5.7%	6.0%	5.9%	5.7%
Comp NOI Growth (%)	%	3.8%	2.7%	0.5%	3.0%	3.4%

Valuation Data						
Year End 30 Jun	**Unit**	**2024**	**2025**	**2026e**	**2027e**	**2028e**
FFO	A$m	45.3	36.5	22.9	34.6	41.2
FFO / share	**Ac/sh**	**8.0**	**6.6**	**4.2**	**6.3**	**7.5**
Growth %	*%*	*16%*	*-18%*	*-37%*	*51%*	*19%*
P/E Ratio	**x**	**13.3**	**11.2**	**16.8**	**11.1**	**9.4**
3-yr EPS CAGR	**%**	**-7.7%**	**4.4%**	**27.1%**	**13.7%**	**11.4%**
PEG Ratio	x	-1.7	2.5	0.6	0.8	0.8
Earnings Yield	%	7.5%	9.0%	5.9%	9.0%	10.7%
Dividend Yield	**%**	**7.5%**	**5.7%**	**0.0%**	**9.0%**	**10.7%**
2-yr DPS CAGR	%	-100.0%	14.5%	n/a	10.5%	7.0%
CFPS	Ac/sh	*1.1*	3.3	4.3	6.1	7.3
Price / CF	x	*93.9*	22.3	16.1	11.5	9.6
Franking	%	0%	0%	0%	0%	0%
EV / EBITDA	x	10.1	11.8	16.0	12.7	11.0
EV / EBIT	**x**	**10.1**	**11.8**	**16.0**	**12.7**	**11.0**
NTA per share	A$/sh	1.64	1.44	1.42	1.45	1.43
Premium / (Discount) to NTA	**%**	**-35%**	**-49%**	**-51%**	**-52%**	**-51%**
Share Price	A$/sh	1.06	0.74	0.70	0.70	0.70

Performance & Leverage Metrics						
Year End 30 Jun		**2024**	**2025**	**2026e**	**2027e**	**2028e**
EBIT Margin	%	95.3%	97.4%	72.2%	94.7%	104.3%
Return on Assets	%	3.1%	2.9%	1.9%	2.8%	3.2%
Return on Equity	**%**	**4.9%**	**4.6%**	**2.9%**	**4.3%**	**5.2%**
ROIC	%	4.5%	4.6%	3.8%	5.0%	5.6%
Payout Ratio	%	100.1%	63.8%	0.0%	100.1%	100.2%
Effective Tax Rate	%	0%	0%	0%	0%	0%
Net Debt / (Cash)	A$m	458.1	404.7	307.2	309.3	347.8
Net Debt / EBITDA	x	6.7	6.9	7.1	5.7	5.5
Gearing	%	32.2%	32.8%	27.3%	26.8%	29.4%
WACC	%	5.5%	5.6%	5.1%	5.6%	0.0%
Interest Cover	x	2.9	2.6	2.1	2.7	2.9

Valuation Summary			
Valuation Methodology		***Weight***	**A$ / sh**
SOTP		50%	$0.97
DCF		50%	$0.89
Price Target			**$0.95**
SOTP Components			
Portfolio	**Stated Cap Rate**	**BPe Cap Rate**	**BPe Cap Value**
Healthcare	5.91%	6.16%	$1,075m
Corporation	**EBIT**	**Multiple**	**Value**
Funds Management EBIT	-	0.0x	$0m
Property Management EBIT	-	0.0x	$0m
Trading Profits / Other	-	0.0x	$0m
Unallocated Corporate Overhead	-$6m	8.0x	-$45m

Key WACC / DCF Components	
Risk Free Rate	4.5%
Equity Risk Premium	6.0%
Beta	1.3
WACC	10.4%
DCF / DDM Terminal Growth Rate	1.5%

Source: Bell Potter Securities estimates

RECOMMENDATION STRUCTURE

BUY	Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.
HOLD	Expect total return between -5% and 15% on a 12 month view.
SELL	Expect <-5% total return on a 12 month view.

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